

Introduction

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Lafayette K. Morgan, Jr. My business address is 10480 Little Patuxent Parkway, Columbia, Maryland, 21044. I am a Public Utilities Consultant working with Exeter Associates, Inc. Exeter is a firm of consulting economists specializing in issues pertaining to public utilities.

Q. ARE YOU THE SAME LAFAYETTE K. MORGAN, JR. WHO SUBMITTED DIRECT TESTIMONY ON JANUARY 23, 2020 IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of BGWC's witness Dante DeStefano that was filed on February 6, 2020.

Storm Reserve Fund

Q. PLEASE RESPOND TO THE COMPANY'S DISAGREEMENT WITH YOUR RECOMMENDATION FOR THE STORM RESERVE FUND.

A. In my direct testimony, I stated that I do not believe that the establishment of the Storm Reserve Fund is necessary at this time. I ~~Indicated~~indicated that given that storm costs are already included in the cost of service, I believe that an adequate allowance for storm cost recovery has been provided.

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2 In ORS' direct testimony, it indicates that it would support a Storm Reserve
3 Fund that: (1) Will be used for damage incurred as a result of a named storm (as named
4 by the World Meteorological Organization); (2) Shall be used if the Company's
5 insurance does not cover all costs related to damage from a named storm; (3) Shall
6 require quarterly reporting to the Commission and ORS of the status updates of the
7 Fund including, but not limited to, dates and amounts of withdrawals and expenditures
8 from the Fund, current balance, and current monthly surcharge;¹(4) Shall limit the
9 maximum fund balance to \$50,000; and (5) The balance to Storm Reserve Fund should
10 be included as a reduction to rate base. ORS also recommends an adjustment to reduce
11 storm damage expenses by \$23,481 to normalize storm damage expense based upon an
12 8-year average.

13 In its rebuttal testimony, the Company indicated that it agrees that periodic
14 reporting and utilization of money from the Fund only for named storms is reasonable,
15 but contends that the ORS's modifications and the rationale of my recommendation
16 would not serve the ultimate purpose of the Storm Reserve Fund. According to BGWC,
17 the purpose of the Storm Reserve Fund is to set aside capital for use when there is an
18 extraordinary level of storm recovery expense, an amount significantly above the
19 annual average normal level of storm-related expense it typically experiences.

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¹ Direct Testimony of Brandon S. Bickley, page 21, lines 11 through 17.

1 The Company's request to establish a \$200,000 Storm Reserve Fund is
2 unreasonable given that such a level of storm damage cost does not occur frequently.
3 According to the Company's own data, there have been only two storms for which the
4 Company was allowed deferred accounting treatment. One storm was in 2016 and the
5 Company was allowed to defer approximately \$60,000 which is being amortized over
6 a 5-year period. The other storm deferral, a combination of two 2018 storms², the
7 Company incurred approximately \$209,000 in storm restoration costs, and is being
8 allowed to recover those costs over a 5-year period. These are the only two instances
9 over the most recent 4 years where the Company incurred storm damage expenses that
10 were significant enough to receive authority to defer the expenses. BGWC explains
11 that the \$200,000 amount that it seeks to accumulate in the Storm Reserve Fund is
12 based upon the level of expenses incurred for Hurricane Florence and Hurricane
13 Michael in September/October 2018. However, it is unreasonable to establish a
14 \$200,000 reserve because that level of costs was incurred due to a one-time and unusual
15 experience where there were two hurricanes that were back to back in a short span of
16 time. Moreover, during the 10-year period presented on page 22 of Mr. DeStefano's
17 rebuttal testimony, the normal annual storm damage expense is significantly less than
18 \$200,000. The Company has not provided any evidence that storm damage expenses
19 have reached the \$200,000 level in recent history. It is also unreasonable to make a
20 significant policy change based upon a rare occurrence.

² These expenses are actually related to Hurricane Florence and Hurricane Michael in September/October 2018.

1 The current process whereby the Company can seek deferred accounting
2 treatment works well for such unusual occurrences. There is no need to burden
3 ratepayers with higher rates to create a fund that will end up unused on the Company's
4 balance sheet. From a cash flow perspective, the Company will have free use of the
5 \$200,000, provided by ratepayers, until another rare storm event occurs.

6 The Company has been able to provide safe and reliable service so far without
7 the existence of a Storm Reserve Fund. ORS witness Bickley indicates that the
8 Company's response to Energy Operations Request 5, number 29 provides evidence
9 that "very few, if any" of BGWC's customers have gone without reliable water and
10 sewer service due to storm damage. In response, Company witness DeStefano indicates
11 that the discovery response also stated that "the Company has occasionally experienced
12 service disruptions due to temporary power loss and damage to supply or treatment
13 infrastructure as well as main breaks, which can cause low pressure and require boil
14 water advisories. He then indicates that it can take from less than an hour to several
15 days to restore full service to customers depending on the nature of the damage
16 sustained to the Company's systems." It is important to note that the Company is not
17 claiming that these service disruptions are due to the lack of funds to restore service,
18 nor has the Company provided any evidence that shows that the lack of funds for
19 emergency repairs has caused service disruptions to be longer than necessary. The
20 statement that "depending on the nature of the damage sustained to the Company's
21 systems, it can take from less than an hour to several days to restore full service to
22 customers" indicates that the length of the service disruption is governed by the time it

1 physically takes to do the repairs. It has nothing to do with access to funds to make the
2 repairs.

3 **Q. DO YOU AGREE WITH THE SAFEGUARDS RECOMMENDED BY ORS**
4 **FOR THE STORM FUND?**

5 **A.** My position is that the Storm Reserve Fund is not needed at this point in time to provide
6 safe and reliable service. However, if the Commission decides to allow the creation of
7 the Storm Reserve Fund, I believe that the safeguards recommended by ORS, which I
8 mentioned above, are reasonable.

9 **Deferred Maintenance Costs in Rate Base**

10 **Q. MR. DESTEFANO DISAGREES WITH YOUR ADJUSTMENT TO REMOVE**
11 **DEFERRED MAINTENANCE EXPENSES FROM RATE BASE. PLEASE**
12 **RESPOND TO HIS REBUTTAL TESTIMONY.**

13 **A.** In my direct testimony, I indicated that I removed the balances of maintenance work
14 related to a wastewater treatment plant tank recoating and various hydro tank
15 inspections from rate base. The rationale for my adjustment was that the costs were not
16 capital expenditures, but, instead, the costs were maintenance expenses.

17 In his rebuttal testimony, Mr. DeStefano acknowledges that these costs are
18 maintenance expenses which do not recur on an annual basis, but argues that it is
19 appropriate to defer them and include the unamortized balance in rate base.

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1 These maintenance costs are not eligible for capitalization under Generally
2 Accepted Accounting Principles (GAAP). Even when such costs are allowed to be
3 recovered, utility commissions would normalize these costs to spread the cost out over
4 a reasonable period, or the period that benefits from the maintenance expense. The
5 costs are normalized to avoid overstating expenses and establishing rates that are higher
6 than they need to be. Therefore, these costs should not be included in rate base, and
7 the Commission should reject the Company's claim.

8 **Purchased Water and Wastewater Service Pass-Through Mechanisms**

9 **Q. IN YOUR DIRECT TESTIMONY, YOU EXPRESSED CONCERNS ABOUT**
10 **CERTAIN ASPECTS OF THE PASS-THROUGH MECHANISM FOR**
11 **PURCHASED WATER AND WASTEWATER SERVICE. WHAT IS YOUR**
12 **RESPONSE TO THE COMPANY'S REBUTTAL ON THIS ISSUE?**

13 **A.** In my direct testimony, I indicated that I had concerns related to the pass-through of
14 the deferred costs related to purchased water and wastewater service. Specifically, I
15 was concerned about how the deferred costs would be allocated and collected from
16 various customers, how the annual filing process would be structured, whether the
17 current deferred accounting for these services should be continued, and whether the
18 pass-through of these costs would affect the lost and unaccounted for water on the
19 system.

1 In responding to other parties' testimonies, BGWC witness DeStefano's
2 rebuttal testimony presents arguments as to why the Commission should accept the
3 Company's pass-through proposal which: (1) Seeks to recover only actual purchased
4 water and sewer treatment expenses resulting solely from third-party supplier rate
5 changes; (2) Seeks to allocate and recover such costs from all purchased
6 water/purchased sewer treatment customers, rather than directly charging customers
7 that are geographically located in a specific third-party supplier's area; and (3) Seeks
8 to make an annual filing to net out changes in third-party vendor rates, and initiate a
9 single rate adjustment.

10 After reviewing available information in this proceeding, including testimony
11 from the parties, it is apparent to me that since Docket 2015-199-WS, the Commission
12 has pursued a consolidated rate structure policy when setting rates for this Company.
13 Hence, consistent with that approach, I believe the Company's request to recover such
14 costs from all purchased water/purchased sewer treatment customers is not
15 unreasonable. Consolidated rates are an overall benefit for customers as they creates
16 economies of scale and lowers administrative and regulatory costs to all customers. In
17 this instance, customers benefit, especially those on smaller systems, because the cost
18 of providing safe and reliable service is minimized.

19 Also, I believe an annual rate filing to pass-through changes in the cost of
20 purchased water and wastewater service will minimize the effect on BGWC's overall
21 rates it charges for current water and wastewater services. In other words, if the current
22 deferred accounting system, which accumulates the costs related to changes in the

1 supplier rates for purchased ~~waster~~ water and wastewater services, continues, then there
2 is likely to be large balances that will need to be recovered in ~~ever~~ every rate case. For
3 instance, in this proceeding, the Company is seeking recovery of \$2.8 million of
4 purchased water and wastewater costs that have been deferred. Annual rate filings will
5 prevent the accumulation of such balances. To the extent there are any increases in the
6 rates purchased water and wastewater suppliers charge, those increases will be pass-
7 through in smaller increments that are more palatable to customers.

8 **Deferred Purchased Water and Wastewater Service -Amortization**

9 **Q. IN YOUR DIRECT TESTIMONY, YOU RECOMMENDED THAT THE**
10 **DEFERRED PURCHASED WATER AND WASTEWATER SERVICE**
11 **BALANCES BE AMORTIZED OVER A 5-YEAR PERIOD. MR.**
12 **DESTEFANO DISAGREES WITH YOU. PLEASE RESPOND.**

13 **A.** Mr. DeStefano has misunderstood my explanation for the use of a 5-year amortization
14 for these costs. While I stated that I chose the 5-year period to be consistent with the
15 Company-proposed amortization of the Administrative Law Court (“ALC”)
16 proceedings, my intention was to use an amortization period that was similar to an
17 amortization period used by the Company. It was not my intent to imply that there was
18 a linkage between the purchased water and sewer treatment expenses and the costs
19 associated with the ALC proceedings. Instead, I wanted to use a period considered
20 reasonable by the Company, so I used the 5-year period used for the ALC proceeding
21 costs. Again, not because they are somehow linked, but because the Company chose 5

1 years as a reasonable period.

2 It is important to recognize that the Company is seeking nearly a 50 percent
3 increase in its rates. For some customers this is a huge increase that would put a dent
4 in their household budgets. If such a situation did not exist, the Company's proposed
5 Round-up program would not make sense. Hence, with a 50 percent increase in rates
6 and \$2.8 million accumulated in Deferred Purchased Water and Wastewater Service
7 costs, the Commission can use its discretion, where possible, to do whatever is
8 reasonable to minimize costs that are passed on to ratepayers. Therefore, I believe the
9 5-year amortization period that I have recommended is reasonable.

10 **Proforma Plant Additions**

11 **Q. MR. DESTEFANO DISAGREES WITH YOUR ADJUSTMENT TO**
12 **REMOVE THE COMPANY PROPOSED PRO FORMA PLANT**
13 **ADDITIONS. PLEASE RESPOND.**

14 **A.** In my direct testimony filing I excluded the costs of the Company's pro forma plant
15 additions because these additions were scheduled to be placed in service after the end
16 of the test year and should not be eligible for inclusion in rates. Based upon my
17 understanding, the post-test year plant addition is not eligible for inclusion in rates.
18 Therefore, the adjustment is necessary.

19 **Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

20 **A.** Yes, it does.